

April 1998

QUADRENNIAL DEFENSE REVIEW

Some Personnel Cuts and Associated Savings May Not Be Achieved



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April 30, 1998

The Honorable Strom Thurmond
Chairman

The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

As you requested, we reviewed the Department of Defense's (DOD) May 1997 Report of the Quadrennial Defense Review (QDR), which directed the services to reduce the number of active, reserve, and civilian personnel. Specifically, our report discusses (1) the basis for the personnel cuts, (2) the services' plans to implement personnel cuts and achieve savings, (3) the extent that the services believe the cuts will impact their ability to execute the national military strategy, and (4) DOD's plans to monitor the services' progress in implementing the cuts. We did not review planned cuts to the defense agencies. We are reporting separately on other aspects of the QDR, including DOD's process and methodology for assessing force structure and modernization requirements and the implications of the QDR decisions on DOD's Future Years Defense Program (FYDP).

Background

The National Defense Authorization Act for Fiscal Year 1997 directed the Secretary of Defense, in consultation with the Chairman, Joint Chiefs of Staff, to conduct a review of the defense program. The legislation required DOD to report on a number of topics, including the defense strategy, the force structure best suited to meet the strategy, and the appropriate ratio of combat to support forces. During the QDR process, DOD considered three alternatives for implementing the national defense strategy to shape and respond to current needs and prepare the force for the future within an expected budget of about \$250 billion annually (constant 1997 dollars). One alternative focused on current dangers and called for maintaining the current force structure and investment levels. Another alternative focused on future dangers and allocated more resources to modernizing for the future but significantly reduced the current force. The final alternative, selected by DOD, targeted infrastructure activities, called for modest force structure cuts, and increased modernization funding to \$60 billion per

year. According to the QDR, this option retains sufficient force structure to meet current requirements and reallocates resources to invest in force modernization.

A principal objective of the QDR was to understand the financial risk in DOD's program plans and devise ways to manage that risk. The QDR noted that past years' procurement funds were used for unplanned operating expenses. The QDR concluded that as much as \$10 billion to \$12 billion per year in future procurement funding could be diverted for unplanned operating expenses. The QDR also noted that the migration of procurement funding is caused by unprogrammed operating expenses from underestimating day-to-day operating costs, unrealized savings from initiatives such as outsourcing or business process reengineering, and new program demands. To address this financial instability, the QDR directed cutting some force structure and personnel, shedding additional excess facilities through more base closures and realignments, streamlining infrastructure, and reducing quantities of some new weapon systems.

Congress establishes minimum active duty personnel levels for each service as part of the annual national defense authorization process. Thus, congressional approval for the QDR active duty personnel reductions will be needed because they would reduce the number of personnel below the current approved levels. The QDR directed the services to cut 61,700 active, 54,000 reserve, and 60,800 civilian personnel by fiscal year 2003, except for 7,700 of the civilian cuts that DOD expected to achieve by fiscal year 2005. DOD expected to save about \$3.7 billion annually by fiscal year 2003 as a result of these cuts. The QDR personnel cuts are in addition to those cuts the services had planned in the fiscal year 1998 FYDP through fiscal year 2003, which was prepared before the QDR. Appendix I shows the total projected personnel reductions by service through fiscal year 2003.

Results in Brief

DOD's decision to reduce personnel as part of the Quadrennial Defense Review was driven largely by the objective of identifying dollar savings that could be used to increase modernization funding. DOD officials concluded that a 10-percent force structure cut would result in unacceptable risk in implementing the national military strategy and determined that the review process had not identified sufficient infrastructure savings to meet DOD's \$60 billion modernization goal. Thus, the Secretary of Defense directed the services to develop plans to cut the equivalent of 150,000 active military personnel to save between \$4 billion and \$6 billion in recurring savings by fiscal year 2003. The services

proposed initiatives to eliminate about 175,000 personnel and save an estimated \$3.7 billion. Although the services relied on some ongoing studies to develop proposals to achieve the cuts, some of the analyses were limited. Moreover, variations existed in the services' plans. For example, the Navy relied extensively on planned force structure cuts, whereas the Air Force cuts are primarily based on outsourcing.

Considerable risk remains in some of the services' plans to cut 175,000 personnel and save \$3.7 billion annually by fiscal year 2003. With the exception of the Air Force, the services have plans that should enable them to achieve the majority of the active military cuts by the end of fiscal year 1999. However, the fiscal year 1999 future years defense program, which is the first to incorporate the Quadrennial Defense Review decisions, does not include all the personnel cuts because the Office of the Secretary of Defense determined that some of the Air Force's active military cuts announced in May 1997 are not executable at this time, according to service officials. Moreover, plans for some cuts are still incomplete or based on optimistic assumptions about the potential to achieve savings through outsourcing and reengineering and may not be implemented by fiscal year 2003 as originally anticipated. For example, there is no agreement within the Army on how 25,000 of the 45,000 reserve cuts will be allocated. Moreover, the Air Force assumed that all military positions planned to be competed would be contracted out rather than relying on historical experience that shows a civilian workforce wins 40 percent of all competitions. This and other assumptions could make it difficult to achieve as many as 6,900 of the Air Force civilian cuts included in the fiscal year 1999 future years defense program.

Service officials believe that the majority of the planned personnel cuts will not impact the services' ability to implement the national military strategy. The cuts are primarily focused on reducing personnel associated with infrastructure activities or combat forces that are not critical to meeting war-fighting requirements, according to service officials. The Air Force military personnel cuts will focus primarily on personnel assigned to infrastructure activities rather than mission forces and will involve replacing military personnel with less costly civilians or contractors rather than eliminating functions. Navy officials stated that its plan to achieve personnel savings by eliminating surface combatants will not affect its ability to implement the strategy because more capable ships have entered the Navy's inventory. In February 1997, we reported that a smaller active Army support force could increase the Army's risk of carrying out current defense policy. Although the Army has reduced its active support forces as

part of the Quadrennial Defense Review cuts, it believes these cuts will not significantly increase the risk associated with implementing the national military strategy because the positions are being transferred to the reserve component.

Because some aspects of DOD's plan to reduce personnel will not occur or will be delayed, it is critical that the Office of the Secretary of Defense monitor the services' progress in achieving the personnel cuts and associated savings. The Office plans to review the services' progress in achieving the personnel cuts during its annual review of the services' budgets. According to Office of the Secretary of Defense officials, the Defense Management Council, which was established in November 1997 by the Secretary of Defense to oversee progress in achieving defense reform initiatives, will oversee the services' outsourcing plans.

Personnel Cuts Are Based on DOD's Goal to Increase Modernization Funding

The level of personnel cuts called for in the QDR was based on DOD's plan to achieve dollar savings that would (1) reduce the possibility that procurement funds would be used for unplanned expenses and (2) enable DOD to increase and maintain procurement funding at \$60 billion annually.¹ In March and April 1997, DOD officials concluded that a 10-percent force structure cut would result in an unacceptable risk in implementing the national military strategy and that the potential savings from infrastructure initiatives identified during the QDR process would not be sufficient to ensure that procurement funding would not be used for unplanned expenses. As a result, senior civilian officials and the service chiefs agreed that the services needed to eliminate the equivalent of about 150,000 active military personnel, which Office of the Secretary of Defense (OSD) officials estimated would save between \$4 billion and \$6 billion annually by fiscal year 2003. The Secretary of Defense directed the service chiefs to develop initiatives to achieve personnel cuts and assess how to allocate the cuts among active, reserve, and civilian personnel.

In May 1997, the Secretary of Defense approved the services' proposals to eliminate about 175,000 active, reserve, and civilian personnel and save an estimated \$3.7 billion by 2003, as shown in table 1. The savings estimates vary among the services because of the different levels of active, reserve, and civilian personnel cuts and the extent of outsourcing included in the services' plans. For example, the Navy and the Air Force plan to cut about 30,000 and 46,000 active, reserve, and civilian personnel, respectively.

¹The fiscal year 1999 FYDP shows that \$45.1 billion was funded for procurement in fiscal year 1998 and that \$48.7 billion was budgeted for fiscal year 1999.

Despite the larger personnel cut, the Air Force's estimated savings are significantly lower than the Navy's because most of the Air Force cuts will occur primarily from replacing military and civilian personnel with contractors, which saves only a portion of current salaries. In contrast, the Navy plans to eliminate personnel primarily by reducing force structure, such as surface combatants, which will save all of the current and future salaries.

Table 1: QDR Personnel Cuts and Estimated Savings by Fiscal Year 2003 (fiscal year 1997 constant dollars in millions)

Service	Number of personnel			Estimated savings
	Active	Reserve	Civilian	
Army	15,000	45,000	33,700	\$1,540
Navy	18,000	4,100	8,400	1,210
Air Force	26,900	700	18,300	790
Marine Corps	1,800	4,200	400	170
Total	61,700	54,000	60,800	\$3,710

Note: The QDR also directed that 18,000 civilian employees assigned to defense agencies be cut, which OSD estimated would save \$1.5 billion.

Source: Report of the Quadrennial Defense Review and OSD.

The Army plan was based on the assumption that it had to eliminate the equivalent of 45,000 active personnel. The Army decided to cut its active, reserve, and civilian personnel each by the equivalent of 15,000 active personnel. The active cuts were based primarily on transferring some active combat service and combat service support missions to the reserves and allocating percentage cuts to most of the major command institutional forces.² The Army decided to cut the reserves by 45,000, which it believed to be the equivalent of 15,000 active positions, based on the assumption that three reserve component positions equaled the cost of one active position. In allocating the cuts between the reserve components, the Army considered an analysis of forces that indicated about 6,300 Army Reserve and 62,000 Army National Guard forces were not included in current war plans. After considering this analysis and other factors, the Army decided to cut the Army Reserve by 7,000 personnel and the Army National Guard by 38,000 personnel. After the release of the QDR, Army National Guard officials stated that they were not included in the process used to determine the scope of the cuts and that they have yet to reach agreement with Army headquarters on all the personnel cuts. The Army reserve

²Institutional forces, called the Table of Distribution and Allowances, generally provide nondeployable support to the Army infrastructure, which includes training, doctrine development, and base operations.

components have agreed to cut 20,000 reserve personnel by fiscal year 2000 and defer allocation of the remaining 25,000 cuts. The Army civilian cuts were based primarily on a plan to compete 48,000 civilian positions, with the assumption that private contractors would win one-half of the competitions. However, the Army's plan was not based on a study of missions and functions by location. The Army assumed that all eligible positions in commercial activities would be competed and that it could reclassify some positions that cannot currently be competed.³ The remainder of the civilian cuts were based on efforts to reengineer the Army Materiel Command and reduce the number of military technicians in the reserve component.⁴

The Navy proposed reducing its active, reserve, and civilian personnel by about 4.5 percent each. The majority of the active military cuts were based on planned force structure cuts, such as reducing the number of surface combatants and attack submarines, and transferring some active support ships to the Military Sealift Command. The Navy Reserve cuts were based primarily on plans to decommission frigates, deactivate some aircraft and helicopters, and eliminate positions that had been funded but had not been filled. The Navy expects to reduce civilian personnel primarily by workload reductions and reengineering; however, it had not initiated any studies, as of May 1997, to achieve these cuts. Unlike the Army and the Air Force plans, the Navy plan assumes very few reductions from outsourcing because the Navy, in its fiscal year 1998 budget, had programmed savings of \$2.5 billion from outsourcing by fiscal year 2003.

The Air Force planned to achieve the majority of its personnel cuts from outsourcing and the remainder through consolidating fighter and bomber squadrons and streamlining headquarters. The Air Force relied on an ongoing study, known as Jump Start, to determine the potential for reducing active military and civilian positions by outsourcing. This study examined the potential for outsourcing at wing level rather than relying exclusively on a broad, headquarters-only assessment of all personnel that could potentially be outsourced. After the QDR, the Air Force identified some problems with the data used to determine the potential number of cuts; therefore, it programmed a smaller personnel reduction than that identified in the QDR report.

³Title 10 U.S.C. 2465 prohibits DOD from outsourcing civilian firefighters or security guards at military installations. Chapter 146 of title 10 contains various provisions that restrict DOD's outsourcing of depot maintenance and base support activities.

⁴Military technicians are full-time civilian employees who are also members of the reserve component.

The Marine Corps plan to reduce active personnel was based primarily on reducing and reorganizing the Marine Corps Security Battalion, which provides security for Navy installations. The Marine Corps also proposed to cut some administrative support in headquarters activities, but it had not identified any specific actions as of May 1997. The Marine Corps had also not developed specific plans to reduce reserve and civilian personnel.

Some Aspects of the Services' Plans Are Incomplete and Based on Optimistic Assumptions

Not all of the QDR personnel cuts were included in the fiscal year 1999 FYDP. In addition, there is considerable risk that some of the cuts included in the FYDP may not be achieved because (1) the Army has not agreed on the allocation of 25,000 of the 45,000 reserve component cuts, (2) significant reductions in the Air Force and the Army are based on implementing aggressive outsourcing plans, and (3) some of the Army and the Navy civilian reductions are contingent on the outcome of reengineering studies. On the other hand, all of the services, except the Air Force, have plans to achieve the majority of their active military cuts by the end of fiscal year 1999. For example, the Navy plans to achieve about 14,200, or 79 percent, of its active military cuts in fiscal year 1999 through force structure reductions, such as decommissioning surface combatants. Moreover, the Navy has plans to achieve its reserve cuts, and the Army has specific plans to achieve 20,000 reserve component cuts. Also, the Marine Corps has plans to achieve the majority of its active and reserve cuts. Although outsourcing is only a small part of the Navy's QDR cuts, the Navy has an aggressive outsourcing program that involves risk because the Navy has not identified the majority of the specific functions that will be studied to achieve the expected savings. Details of the services' plans are included in appendixes II through V.

Not All of the QDR Personnel Reductions Have Been Included in the Fiscal Year 1999 FYDP

The Air Force did not program about 5,600, or 20 percent, of its active military and 2,300, or 13 percent, of its civilian QDR reductions in the fiscal year 1999 FYDP. The Air Force double counted some potential outsourcing savings, and OSD deferred most of the Air Force's plans to restructure fighter squadrons and consolidate bomber squadrons because it determined that the plans were not executable at this time. According to an OSD official, OSD was concerned that the restructuring plan could be construed by Congress as violating its guidance to refrain from any planning for future base closures. Likewise, the Air Force reserves will not be reduced by 700 personnel because, after the QDR was released, the Air Force decided to increase the reserve end strength to cover an existing wartime shortage, according to Air Force officials. These actions will

reduce the Air Force's planned recurring savings to about \$600 million compared with the \$790 million it had planned to achieve by fiscal year 2003.

No Agreement on All of the Army Reserve Component Cuts

The QDR directed that the Army reduce its reserve components by 45,000 personnel. In June 1997, at a meeting convened to reach agreement on how the reductions should be allocated, the reserve component agreed to reduce end strength by 20,000 by fiscal year 2000—17,000 in the Army National Guard and 3,000 in the Army Reserve. However, officials within the Army do not agree on how the remaining 25,000 personnel will be cut. For budgeting purposes, the Army allocated 21,000 personnel to the National Guard and 4,000 to the Army Reserve in the fiscal year 1999 FYDP. However, National Guard officials stated that they did not agree to the additional cuts.

Significant Reductions Are Contingent on Implementing Aggressive Outsourcing Plans

A significant portion of the active military and civilian cuts in the Air Force, and the civilian cuts in the Army, are based on plans to conduct private-public competitions to determine whether functions could be done more economically by contractors or an in-house workforce consisting of civilian employees.⁵ In developing their plans, the services made different assumptions about the personnel cuts that could be achieved through these competitions. The Air Force identified the specific functions that will be studied by base; however, it made some assumptions that could overstate the number of civilian cuts. On the other hand, the Army had not identified the majority of the specific functions by location to be competed, and its plan assumes that all eligible civilian positions in commercial activities can be competed.

Although the fiscal year 1999 FYDP reflects a lower number of reductions through outsourcing than the Air Force's May 1997 plan, the Air Force made some assumptions that could make it difficult to achieve about 6,900 civilian cuts. According to Air Force officials, the fiscal year 1999 FYDP reflects that about 22,000 military and 16,000 civilians will be eliminated through outsourcing by fiscal year 2003. To estimate the potential personnel cuts from outsourcing, the Air Force assumed that all of the military positions included in its Jump Start study, and all of the military and civilian positions included in a separate outsourcing study of targeted functions at four bases, would be contracted out. This assumption differs

⁵Office of Management and Budget Circular A-76 and its supplemental handbook set forth procedures for agencies to conduct public-private competitions.

from past Air Force experience, which shows that a civilian workforce wins 40 percent of all competitions and that 60 percent of the work is contracted out. Air Force officials noted that a standard 12-percent overhead factor must now be included in the government cost estimate, which they believe will result in more functions being contracted out. Our recent review of the 12-percent overhead rate suggests the potential, though not the certainty, for more competitions to be won by the private sector.⁶ If more functions are contracted out, then more civilian positions will be eliminated. However, the Air Force commercial activities manager stated that the Air Force has not had sufficient experience with the 12-percent overhead factor to determine if it will change the mix of functions that remain in house or are contracted out. If the A-76 change does not result in contractors winning more competitions and the results are similar to past results, we estimate that the Air Force may not be able to eliminate as many as 6,900 civilian positions.

The Army plans to compete 48,000 positions to achieve the majority of its civilian reductions; however, the Army made some assumptions that could make it difficult to achieve all of the planned cuts. For example, the Army assumed that it could compete all 34,000 civilian positions in commercial activities except those exempted by legislation, such as firefighters and security guards. However, unlike the Air Force, the Army has not done a study to determine if all positions can be competed. The Air Force found that it is not practical to compete many positions in commercial activities because the positions are spread across many units and locations.⁷ The Army announced studies covering about 14,000 of the 34,000 positions; however, it has not identified the specific functions or location of the remaining positions to be studied. Army officials stated the major commands would identify the functions to be studied as part of their future annual budgets. Finally, the study universe also included some positions that involved performance of inherently governmental functions and therefore cannot be competed. Army officials stated that, as part of the Defense Reform Initiative, a study is underway to determine if all positions are consistently and properly classified throughout DOD. Army officials believe this review will reclassify about 14,000 positions to commercial activities, which will then enable the positions to be

⁶Defense Outsourcing: Better Data Needed to Support Overhead Rate for A-76 Studies (GAO/NSIAD-98-62, Feb 27, 1998).

⁷The Air Force had originally planned to compete about 21,000 positions in the communications and information management function, but reduced its plan by about 5,400 positions, or 26 percent. Air Force officials noted that these positions were at many units and locations, which made it difficult to identify more economical ways of accomplishing the mission.

competed. However, the Army does not have analysis to support this figure.

The Navy planned to achieve about 1,300, or 7 percent, of its active military and about 1,200, or 14 percent, of its civilian QDR personnel reductions through outsourcing. However, the Navy now plans to achieve about 660 of its active military QDR personnel cuts through outsourcing because its initial plan did not adequately consider the impact that outsourcing would have on sea-to-shore rotation.⁸ In addition to the QDR reductions, the Navy has programmed savings of \$2.5 billion in its fiscal year 1999 budget based on plans to study 80,500 positions—10,000 military and 70,500 civilian—by fiscal year 2003. OSD has identified Navy outsourcing as an area in which planned savings may not be fully achieved. However, the Navy has not identified the majority of the specific functions that will be studied to achieve the projected savings and has not adjusted its personnel levels to reflect the effects of this outsourcing initiative. Navy officials stated that each year the major commands will identify the functions to study as part of their annual budgets.

Some Reductions Are Contingent on the Outcome of Reengineering Studies

The Army's plan to eliminate about 5,300 civilian personnel in the Army Materiel Command through reengineering efforts involves risk because the Command does not have specific plans to achieve these reductions. The Army plans to use the results of reengineering studies to identify ways to cut these positions; however, the studies are not scheduled to start until after fiscal year 2000. Moreover, in February 1998, we reported that Army efforts to reengineer the institutional forces have not been successful. For example, the Army initially identified 4,000 active military institutional positions that it planned to transfer to operational forces.⁹ However, our work showed that the underlying basis for most of these personnel savings are questionable.

The Navy plan assumes that it will be able to eliminate about 1,100 civilian personnel through reengineering and reducing the workload at the Navy Facilities Engineering Command field structure. The Navy started a study in January 1998 and plans to complete it by July 1998. To achieve the savings target, Navy officials stated the study must identify ways to reduce the workforce by 30 percent.

⁸The Navy policy for sea-to-shore rotation is that enlisted personnel in grades E-5 through E-9 spend no more than 4 years at sea for every 3 years on shore in the aggregate.

⁹Force Structure: Army Efforts to Improve Efficiency of Institutional Forces Have Produced Few Results (GAO/NSIAD-98-45, Feb. 26, 1998).

Services Expect Few Adverse Impacts From Personnel Cuts

Service officials believe the majority of the planned personnel cuts will not affect their ability to implement the national military strategy because they will reduce infrastructure or, to the extent that the cuts involve combat forces, implement missions more cost-effectively without any significant loss in capability.

Almost one-half of the active military cuts will involve replacing military personnel with reserve forces, civilian employees, or contractors rather than eliminating functions outright. For example, the Air Force plans to eliminate about 22,000 active military personnel through outsourcing. Air Force officials noted that these personnel are not military essential because they do not deploy, are not required to support overseas rotation needs, and primarily involve infrastructure functions such as logistics and base operating support. Moreover, on the basis of past experience, the Air Force expects that 75 percent of these personnel will be replaced by either civilian employees or contractors. The other 25 percent will be eliminated because A-76 studies should result in more efficient organizations requiring fewer personnel.

The Navy plans to eliminate about 5,400 active military personnel by reducing the number of surface combatants from the current level of 128 to 116 and decommissioning 2 attack submarines. According to Navy officials, the surface combatant reductions are possible because the newer ships entering the fleet provide greater combat capability. Similarly, the Marine Corps plans to eliminate 1,200 active military positions by restructuring its security battalion, which provides support to the Navy. Navy officials agreed with the Marines Corps' proposed restructuring, which will eliminate personnel associated with missions that are no longer valid and reorganize personnel to provide the same level of support more efficiently.

The Army believes that the plan to reduce active personnel can be accomplished without significantly increasing the risk associated with implementing the national military strategy. The Army plans to achieve almost one-half of its QDR-directed active cut by transferring 7,100 active military combat support and combat service support positions to the reserve component. Army officials believe that this plan will enable it to execute the national military strategy with an acceptable level of risk, assuming adequate resourcing for active and reserve components, availability of increased sea- and airlift, funding for equipment modernization, and improvements to existing intelligence and communication systems. However, the Army had not finalized its plan on

which combat support and combat service support missions would be transferred to the reserve component. Our February 1997 report on Army support forces highlighted shortages in active support forces. We reported that a smaller active Army support force did not appear feasible because it could increase the Army's risk of carrying out current defense policy.¹⁰ Specifically, our report stated that about 79,000 support forces needed in the first 30 days of the first major theater war would arrive late because the Army lacks sufficient numbers of active support forces and must rely on reserve forces, which generally require more than 30 days to mobilize and deploy.

Oversight of the Services' Plans Will Be Critical to Achieving QDR Goals

The May 1997 QDR report recognizes that one of the primary sources of instability in DOD's current plans is the possibility that planned procurement funding may need to be used for other activities and that unrealized savings is one of the key components of this problem. The report discusses several factors that contribute to funding migration, stating that "migration also occurs when the savings planned to accrue from initiatives like competitive outsourcing or business process reengineering fail to achieve their expectations fully."

OSD has established two principal mechanisms for monitoring the services' progress in achieving personnel cuts, according to OSD officials. First, it expects to review the services' plans for achieving personnel cuts during annual reviews of the services' budgets. Second, the Defense Management Council, which was established in November 1997 by the Secretary of Defense to oversee progress in achieving defense reform initiatives, will monitor the services' progress in meeting outsourcing goals. The Council is chaired by the Deputy Secretary of Defense and includes representatives from OSD, the Joint Staff, and the services.

In preparing their fiscal year 1999 budgets, the services used different methods to reflect the personnel and dollar savings associated with outsourcing, which could make it more difficult for DOD officials to understand the services' assumptions and plans for outsourcing and monitor their progress. For example, the Navy's projected personnel levels included in its budget for fiscal years 1999 through 2003 reflect the force structure cuts planned to meet QDR-mandated personnel levels but do not reflect further cuts that could result from outsourcing. The Navy plans to compete 10,000 military and 70,500 civilian positions by fiscal year 2003,

¹⁰Force Structure: Army Support Forces Can Meet Two-Conflict Strategy With Some Risks (GAO/NSIAD-97-66, Feb. 28, 1997).

and its budget assumes that these competitions will achieve \$2.5 billion in savings through fiscal year 2003. However, because the Navy does not know how many civilians and military positions will be reduced as a result of these competitions, it did not adjust the personnel figures in its budget to reflect the projected effects of outsourcing. In contrast, the Air Force's projected personnel levels in the fiscal year 1999 budget reflect large cuts in military and civilian personnel from outsourcing. In preparing their budgets, each service assumed a different rate of savings as a result of public-private competitions. For example, the Army assumed it would save 20 percent, the Air Force 25 percent, and the Navy 30 percent of its current personnel expenses.

OSD officials stated that they are aware that the services used different methods for reflecting the personnel and dollar impacts of outsourcing and that the fiscal year 1999 FYDP reflects these different approaches. The Acting Director of OSD's Program Analysis and Evaluation Office has established a task force to ensure that consistent and comparable approaches are used for personnel and dollar savings.

Conclusions

The personnel cuts directed by the QDR were driven primarily by the need to identify dollar savings that could be used to increase modernization funding. However, DOD may not achieve all the personnel cuts and associated savings. With the exception of the Air Force, the services have plans that should enable them to achieve the majority of the active military cuts by the end of fiscal year 1999. However, these cuts depend on Congress reducing the current minimum active duty personnel levels. There is considerable risk that the active military cuts in the Air Force, the reserve component cuts in the Army, and the civilian cuts in all the services may not be achieved by fiscal year 2003 because the services' plans are not complete and depend on outsourcing and reengineering initiatives that are based on optimistic assumptions or largely undefined to date. OSD recognizes that the planned savings from these initiatives have not always been achieved, which contributes to the migration of procurement funding. Therefore, it is critical that DOD monitor the services' progress in achieving the personnel cuts and savings.

Agency Comments and Our Evaluation

DOD provided written comments on a draft of this report, which are reprinted in appendix VI. In its comments, DOD wanted to clarify several key issues to avoid over emphasizing negative aspects of the QDR personnel reductions. For example, DOD noted that the QDR process began

by developing an overarching defense strategy followed by assessments of the force structure, readiness, and modernization to implement the strategy. It believed the report's emphasis on dollar savings ignores the Department's strategy assessment and noted that the resulting balanced program recommended by the QDR is based on modest reductions and restructuring of U.S. military forces to meet present threats. DOD also noted that the QDR was a blueprint to revolutionize business affairs and promote more efficient infrastructure, with many of the details to be fully developed through the programming and budget cycles. Moreover, DOD stated that our report is apparently based on information available as of May 1997 and does not reflect the implementation details that were developed during the fiscal year 1999 budget cycle. Finally, DOD noted that we were critical of QDR decisions to downsize the Army's active, reserve, and civilian components. It stated these decisions were based on a careful analysis of the risks, the potential impact on readiness, and the ability to execute the cuts.

Our report specifically recognizes that the QDR included more than personnel reductions and notes that we will be reporting separately on other aspects of the QDR, such as the process for determining the force structure and modernization requirements. We believe that the risk associated with the services' plans to implement the personnel cuts and achieve the expected savings is an important linkage. Specifically, the personnel cuts account for the majority of the savings DOD expects from the QDR to increase modernization funding. Although this report reflects our analysis of the services' initial plans when the QDR was released in May 1997, it also assesses OSD and service actions to implement the QDR personnel reductions as of February 1998. For example, the report reflects OSD's decision in December 1997 to defer much of the Air Force tactical fighter and bomber consolidation plans and the Marine Corps' decision, made after the fiscal year 1999 budget was finalized, to reduce fewer reserve personnel than directed in the QDR. The report also includes our analysis of the services' outsourcing and reengineering plans as of February 1998. With regard to the Army, we found that some details of the Army's plan to reduce personnel, such as the number of active support forces to be cut, had not been finalized as of May 1997. Moreover, our report shows that the Army faces certain risks to execute some of the reserve and civilian cuts, such as the lack of agreement within the Army on how the majority of the reserve component cuts will be allocated. Likewise, the majority of the Army's civilian cuts are based on outsourcing and reengineering efforts. However, the Army, unlike the Air Force, has not identified the majority of the specific functions by location to be

studied but plans to rely on the major commands to identify functions over the next several years. In addition, the Army is also counting on some functions being reclassified so they can be competed.

DOD also provided technical comments, which were incorporated as appropriate.


Scope and Methodology

To determine the basis for DOD's decision to reduce personnel, we interviewed senior DOD civilian and military officials to obtain information on the decision-making process that led to the personnel cuts and obtained documentation on the services' proposals to cut active, reserve, and civilian personnel. To obtain information on how the services plan to achieve the cuts and how these cuts will impact the services' ability to execute the national military strategy, we interviewed officials who were involved in developing and refining the individual service plans and reviewed service studies and analyses that supported the proposed cuts. We also obtained documentation from the services on data included in the fiscal year 1999 FYDP and compared this data with the services' May 1997 plans. Finally, we interviewed the Acting Director, OSD Program Analysis and Evaluation Office, regarding DOD's plans to monitor the services' progress in implementing the cuts and obtained and analyzed information concerning the services' methods for reflecting in their budgets the potential impact of outsourcing.

We conducted our work from May 1997 to February 1998 in accordance with generally accepted government auditing standards.

We are providing copies of this report to other appropriate congressional committees; the Secretaries of Defense, the Air Force, the Army, and the Navy; and the Director, Office of Management and Budget. We also will provide copies to other interested parties on request.

Please call me on (202) 512-3504 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix VII.

A handwritten signature in black ink that reads "Richard Davis". The signature is written in a cursive style with a large, stylized "R" and "D".

Richard Davis
Director, National Security
Analysis

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Abbreviations

DOD	Department of Defense
FYDP	Future Years Defense Program
QDR	Quadrennial Defense Review
OSD	Office of the Secretary of Defense

Projected Personnel Cuts by Service Through Fiscal Year 2003

Table I.1 shows the projected active military, reserve, and civilian end strength for fiscal year 2003 if all personnel cuts programmed in the fiscal year 1998 Future Years Defense Program (FYDP) and directed in the Quadrennial Defense Review (QDR) are implemented.

Table I.1: Projected Active Military, Reserve, and Civilian Personnel Cuts by Service Through Fiscal Year 2003

Component	Army	Navy	Air Force	Marine Corps
Active				
Fiscal year 1997 end strength	495,000	402,000	381,100	174,000
Cuts programmed in the fiscal year 1998 FYDP	0	14,500	15,500	0
Cuts directed in the QDR	15,000	18,000	26,900	1,800
Projected fiscal year 2003 end strength if all cuts are achieved	480,000	369,500	338,700	172,200
Reserve				
Fiscal year 1997 end strength	582,000	95,900	182,500	42,000
Cuts programmed in the fiscal year 1998 FYDP	7,500	2,400	2,900	0
Cuts directed in the QDR	45,000	4,100	700	4,200
Projected fiscal year 2003 end strength if all cuts are achieved	529,500	89,400	178,900	37,800
Civilian				
Fiscal year 1997 end strength	256,200	206,600	181,200	18,300
Cuts programmed in the fiscal year 1998 FYDP	22,800	23,700	17,400	500
Cuts directed in the QDR	33,700	8,400	18,300	400
Projected fiscal year 2003 end strength if all cuts are achieved	199,700	174,500	145,500	17,400

Source: Fiscal Year 1998 FYDP and Report on the Quadrennial Defense Review, May 1997.

Army Plan to Achieve QDR Personnel Cuts

The QDR directed that the Army cut 15,000 active military, 45,000 reserve component, and 33,700 civilian personnel. These cuts represent a reduction of 3 percent for the active military, 5 percent for the reserve component, and 15 percent for the civilian personnel end strengths projected for fiscal year 2003 before the QDR. The Office of the Secretary of Defense (OSD) estimated these cuts would save \$1.5 billion by fiscal year 2003. The Army has refined its plan since May 1997, but some elements still remain undefined. For example, the Army has allocated all of the active military cuts among the major commands, but the commands have not identified some of the specific functions to cut. Likewise, over one-half of the reserve component cuts have not been specifically identified, and the majority of the civilian cuts are based on aggressive outsourcing efforts that are largely undefined.

Some Active Military Cuts Have Not Been Identified

Army plans to implement various initiatives to achieve the QDR cut. These initiatives are shown in table II.1.

Table II.1: Planned Active Army QDR Reductions

Initiative	Positions reduced
Transfer combat service support and combat support to reserve components	7,100
Reduce major command headquarters	2,900
Reduce active support to the reserves	1,400
Reduce Army Materiel Command	1,300
Reduce and relocate some forces in Panama	1,000
Restructure military intelligence	1,000
Reduce Army Medical Command	800
Other	500
Total	16,000^a

^aThe Army plans to eliminate an additional 1,000 positions to offset a shortage in its "trainees, transients, holdees, and students" force.

Source: Department of the Army.

The Army plans to transfer some combat support and combat service support missions to the reserve component, which will eliminate about

7,000 active military positions. The reserve component has already taken over about one-half of these missions. According to Army officials, these transfers were based on an Army study that concluded that about 3,400 late-deploying combat support and combat service support activities could be transferred to the reserves. The remaining 3,600 positions were to be identified in the Total Army Analysis, expected to be released in March 1998.¹

The major commands have not specifically identified about one-half of the 2,900 cuts to their institutional forces. The Army allocated percentage cuts to most of the major commands based on the judgment of senior Army leaders. For example, commands that were considered low priority received a higher percentage cut than commands that were considered a higher priority. In February 1997, we reported that allocating positions based on available budgets, without defining workload requirements, leads to across-the-board cuts that reduce funds available to all commands regardless of relative need.²

The Army has identified all of the cuts associated with active training support to the reserve component. These cuts were based on an Army study that concluded, among other things, that three existing active headquarters components that support reserve training could be merged into one. According to National Guard officials, the Guard supports the concept of centralized training support to the reserve component but is concerned that these reductions could result in less training support for some units. These cuts comply with section 414 (a) of Public Law 102-190, as amended, which requires the Army to provide a minimum of 5,000 active personnel to provide training support to the reserve component.

The Army Materiel Command has identified all of its active military cuts. The Command was reduced by 1,900 active military personnel, but only 1,300 of these cuts will be used to meet the QDR reduction. The remaining 600 cuts will be used to offset other force structure adjustments within the Army. In developing its plans to reach the QDR cut, the Command first identified positions that it wanted to remain with the military, such as commanders and chaplains, and then decided to cut about 1,000 positions by ceasing to perform some missions. For example, the Command eliminated the new equipment training and developmental equipment

¹The Army uses the process known as Total Army Analysis to determine the number and types of support units needed to support the Army's combat forces and to allocate personnel authorizations to required units.

²Force Structure: Army Support Forces Can Meet Two-Conflict Strategy With Some Risks (GAO/NSIAD-97-66, Feb. 28, 1997).

testing missions. According to Command officials, project managers for new weapon systems will have to fund any new equipment training in the future. On the other hand, the Army National Guard may assume some of the developmental testing mission. The Command allocated the remaining cuts across its subordinate commands.

The Army plans to cut 1,000 positions as part of a plan to reduce and relocate some of the positions that are currently in Panama. For example, the Army plans to eliminate about 400 positions in an infantry battalion that is no longer needed.

The Army plans to cut its Medical Command by about 3 percent, or 800 positions, which is proportionate with the overall reduction to the active Army. According to Office of the Surgeon General officials, these cuts are based on changes in workload and populations served. Although the Medical Command has tentatively identified about 400 of its cuts, these cuts will not be finalized until the Total Army Analysis is complete. At the time that we completed our work, the Command had not identified how to allocate the remaining cuts.

The Army has identified about 300 of the cuts associated with its plans to restructure military intelligence. According to Army officials, an ongoing study, expected to be completed in May 1998, will identify the remaining intelligence positions to be cut. Finally, the Army plans to cut 300 positions from the joint staff and defense agencies and 200 positions from the 82nd Airborne Division. Army officials noted that the Joint Staff and defense agencies positions were identified as part of the Secretary of Defense's recommendation, in the November 1997 Defense Reform Initiative, to reduce headquarters. The Army plans to cut 200 positions that are no longer required in the 82nd Airborne Division.

Agreement Has Not Been Reached on the Majority of Reserve Component Cuts

The QDR directed that the Army reserve components be reduced by 45,000 personnel. At a meeting convened in June 1997 to reach agreement on how the reductions should be allocated, the reserve components agreed to reduce end strength by 20,000 (17,000 in the National Guard and 3,000 in the Reserve) by fiscal year 2001. Officials have not agreed on how the remaining 25,000 personnel reduction would be allocated. For budgeting purposes, the Army allocated 21,000 of the remaining cuts to the Army National Guard and 4,000 to the Army Reserve.

The Army National Guard plans to achieve the initial 17,000 reduction—5,000 in fiscal year 1998, 5,000 in fiscal year 1999, and 7,000 in fiscal year 2000—through attrition. It does not plan to reduce force structure along with the personnel cuts. The Army National Guard plans to distribute the reductions among the states, based on their historical ability to recruit and maintain Guard members, and reallocate personnel as necessary to ensure that units with priority missions maintain readiness. An Army National Guard readiness official stated that the reductions will probably result in understaffing some institutional force units and the combat divisions. As we reported in March 1996,³ DOD and Army studies noted that many Army National Guard combat units are not needed to meet the national security strategy. Although the Army has programmed a reduction of an additional 21,000 personnel between fiscal years 2001 and 2003, the National Guard opposes these cuts and therefore has no specific plans to implement them.

To achieve its cuts, the Army Reserve plans to eliminate 3,000 individual mobilization augmentees in fiscal year 2000.⁴ Army officials stated that, about 1,500 personnel are in medical positions that, according to a recently completed medical reengineering initiative, are excess to requirements. The remaining 1,500 cuts will be based on ongoing reviews of all Army Reserve Individual Mobilization Augmentee positions. The Army has programmed an additional reduction of 4,000 personnel between fiscal years 2001 and 2003; however, the Army Reserve is waiting for the Total Army Analysis results to determine how these cuts will be made.

Plans for Civilian Cuts Are Largely Undefined

Although the QDR directed that the Army cut 33,700 civilian personnel, the Army's plans are not completely defined and based on assumptions that could make it difficult to achieve all of the cuts. For example, the Army plans to achieve the majority of these cuts through outsourcing; however, a significant portion of the plan has not been clearly defined. Moreover, the Army assumed it could cut about 5,300 positions by reengineering the Army Materiel Command, but it does not have specific plans to achieve the majority of these cuts. The Army also assumed that it could cut 2,400 military technicians, but these cuts may be delayed because they are directly tied to force structure reductions that are not currently

³Army National Guard: Validate Requirements for Combat Forces and Size Those Forces Accordingly (GAO/NSIAD-96-63, Mar. 14, 1996).

⁴Individual mobilization augmentees are members of the selected reserve who augment active component commands that have wartime requirements above their peacetime strength authorizations.

programmed. In fact, the Army Reserve plans to reduce 200 military technicians and 200 civilians instead of 400 military technicians.

The Army's outsourcing plan may be difficult to achieve because it assumes that all eligible positions in commercial activities can be competed and that the Army can increase the study population by reclassifying some positions that cannot currently be competed. To achieve the QDR cuts, the Army plans to compete 48,000 civilian positions—34,000 positions currently in commercial activities and 14,000 positions that must be reclassified before they can be competed. The Army assumes that it can compete all of the 34,000 civilian positions in commercial activities. However, unlike the Air Force, the Army has not done any study to determine if all positions can be competed. The Air Force found that it is not practical to compete many positions in commercial activities because they are spread across many units and functions.

The Army has initiated studies covering about 15,000 of the 34,000 positions in commercial activities. However, some of these positions are being used to satisfy personnel cuts that were identified before the QDR. For example, a Test and Evaluation Command official noted that almost all the positions eliminated through the ongoing studies will be used to satisfy personnel reduction targets that existed before the QDR and not to meet QDR cuts. Moreover, the Army has not identified the specific functions by command or installation for the remaining 19,000 positions to be studied. Army officials stated that the major commands would identify the specific functions to be studied as part of each year's budget.

The Army's potential study universe includes 14,000 positions that are currently considered inherently governmental and therefore cannot be competed. According to Army officials, OSD is currently examining whether relevant civilian positions are consistently and properly classified as either a commercial activity or an inherently government function. The Army expects that this effort will result in 14,000 positions being reclassified as commercial activities and therefore becoming eligible to be competed. However, there is currently no data available to support this assumption.

The majority of the civilian cuts allocated to the Army Materiel Command have not been specifically identified. The Command has identified specific plans for about 3,200 of its 8,500 civilian cuts. For example, the Command plans to eliminate the School of Engineering and Logistics at Red River

Army Depot, Texas, and reduce staff oversight of installation management commandwide. The Command does not presently have specific plans for the remaining 5,300 reductions. According to Command officials, the remaining reductions are not scheduled to occur until after fiscal year 2000, which should allow the Command time to develop plans to achieve these cuts.

As part of the civilian cuts, the Army plans to cut 2,200 military technicians—2,000 in the National Guard and 200 in the Army Reserve. However, the cuts in the Army National Guard may not occur. Congress sets annual end strengths for dual-status military technicians, which would have to be reduced from current levels to accommodate the planned cuts. Alternatively, 10 U.S.C. 10216 states that DOD must document reductions in force structure if it budgets for a lower number of dual-status military technicians than the authorized level. Army National Guard officials stated that they do not plan to reduce force structure as part of the QDR, so they do not intend to reduce the number of military technicians. The Army is currently working to resolve this issue. On the other hand, the Army Reserve plans to reduce force structure to eliminate its military technicians.

Air Force Plan to Achieve QDR Personnel Cuts

The QDR directed that the Air Force cut 26,900 active, 700 reserve, and 18,300 civilian personnel. These cuts represent a reduction of 7 percent for the active military, 0.4 percent for the reserves, and 11 percent for the civilian personnel end strengths projected for fiscal year 2003 before the QDR. OSD estimated that these cuts would reduce personnel costs by about \$790 million by fiscal year 2003. However, the Air Force did not program all of the QDR cuts in the fiscal year 1999 FYDP because (1) it decreased its estimate of the number of military and civilian positions that can be eliminated through outsourcing, (2) OSD deferred most of the Air Force's plan to restructure its combat forces because it was not executable by fiscal year 2003, and (3) the Air Force decided not to cut reserve personnel. Therefore, the Air Force's fiscal year 1999-2003 budget only accounts for about \$600 million, or 76 percent, of the savings it planned to achieve through the personnel cuts. Furthermore, the actual personnel cuts could be significantly lower than the amount programmed because of optimistic assumptions that the Air Force made regarding the potential for outsourcing.

Air Force Has Not Programmed All Active Military QDR Cuts

The Air Force has not included about 5,600 of the 26,900 active military cuts directed by the QDR in the fiscal year 1999 FYDP because (1) it found problems with the outsourcing estimates it had used in May 1997 as input for the QDR cuts and (2) OSD deferred the majority of Air Force plans to restructure some fighter and bomber squadrons. These actions lowered the planned savings by about \$156 million. Table III.1 shows the specific initiatives the Air Force plans to implement the QDR cuts, the differences between the May 1997 QDR plan and the fiscal year 1999 FYDP, and the estimated impact of the differences on savings.

Appendix III
Air Force Plan to Achieve QDR Personnel
Cuts

Table III.1: Air Force May 1997 and Fiscal Year 1999 FYDP Plans for Reducing Active Military Personnel

Dollars in millions

Initiative	Cuts based on May 1997 QDR plan	Cuts based on fiscal year 1999 FYDP	Change	Estimated impact on savings ^a
Outsourcing	25,400	22,100	(3,300)	(\$41)
Restructuring combat forces	4,800	1,400	(3,400)	(170)
Streamlining headquarters	800	0	(800)	(40)
Implementing other OSD changes to active personnel	0	2,300	2,300	115
Reinvesting ^b	(4,100)	(4,500)	400	(20)
Total	26,900	21,300	(5,600)	(\$156)

^aEstimates are based on an average active military salary of \$50,000 per year and a 25-percent savings from outsourcing, which were used by OSD to estimate savings from personnel cuts.

^bThe Air Force plans to increase the number of personnel assigned to some missions to eliminate existing shortfalls and respond to new missions.

Source: Our analysis of Air Force data.

Before the QDR, the Air Force began a study, known as Jump Start, to examine the potential to outsource military and civilian positions in commercial activities. In March 1997, we reported that this initiative should enable the Air Force to reduce the size of the active force.¹ Although Jump Start was not complete in May 1997 when the QDR report was issued, the Air Force had developed preliminary estimates of the number of active and civilian personnel that could be reduced through outsourcing and used these estimates, along with other ongoing Air Force outsourcing initiatives, to develop its QDR proposal to reduce active personnel. The Air Force's Jump Start analysis was fairly detailed. Specifically, the Air Force analyzed its commercial activities by major function and units and obtained input from both functional specialists and major commands that would be affected. However, after the QDR was released, the Air Force found that it had double counted—or overstated the potential to reduce—about 3,300 military positions in Jump Start. The Air Force corrected this error in its fiscal year 1999 budget. As a result, the fiscal year 1999 FYDP assumes that 3,300 fewer active military positions will be eliminated through outsourcing by 2003 than the amount assumed in the Air Force's May 1997 QDR plan.

¹Force Structure: Potential Exists to Further Reduce Active Air Force Personnel (GAO/NSIAD-97-78, Mar. 28, 1997).

The Air Force's May 1997 QDR plan also included several initiatives to restructure some combat forces that would have eliminated about 4,800 active military positions. In May 1996, we reported that the Air Force could consolidate its fighter squadrons and maintain the same number of aircraft but carry out its missions with fewer active duty personnel.² We developed options that could eliminate between two and seven squadrons. However, the fiscal year 1999 FYDP assumes that only about 1,400 of these positions will be eliminated. During the QDR, the Air Force developed a plan to increase the size of some active fighter squadrons from 18 to 24 aircraft and transfer 1 active fighter wing to the reserves. The Air Force also proposed to increase the size of some bomber squadrons from 12 to 18 aircraft. However, OSD deferred much of the fighter restructuring and the entire bomber consolidation plans because it determined they were not executable by fiscal year 2003. OSD was concerned that the restructuring plan could be construed by Congress as violating its guidance to refrain from any planning for future base closures. In preparing the fiscal year 1999 budget, OSD cut the active force by about 2,300 through other initiatives, which offset some of the planned force structure reductions.

Air Force No Longer Plans to Cut Reserves

The QDR report stated the Air Force reserve component would be reduced by 700 personnel. This decision was based on an Air Force plan to cut 700 civil engineering positions in the reserves. According to Air Force officials, these positions will be eliminated because they have no wartime mission. However, the Air Force has subsequently decided to increase the reserve end strength to cover an existing shortage in security police units. Thus, the Air Force will not realize an estimated \$5 million in savings.³

Fiscal Year 1999 FYDP Will Not Include All QDR Civilian Cuts

The Air Force planned to achieve all but 100 of its 18,300 civilian cuts through outsourcing. However, the fiscal year 1999 FYDP does not include 2,300 of the civilian cuts mandated by the QDR because the Air Force has revised its estimate of the number of civilians that can be outsourced. After the QDR was released, the Air Force found that it had double counted—or overstated the potential to reduce—about 2,300 civilian

²Air Force Aircraft: Consolidating Fighter Squadrons Could Reduce Costs (GAO/NSIAD-96-82, May 6, 1996).

³This estimate was based on an average reserve salary of \$7,000 per year, which was used by OSD to estimate savings from personnel cuts.

positions in Jump Start. Thus, the Air Force's planned savings was reduced by an estimated \$29 million.⁴

Air Force Could Have Difficulty Achieving Cuts Included in the FYDP

The Air Force's difficulty in implementing QDR cuts may be compounded because of optimistic assumptions it made in calculating the active military and civilian outsourcing cuts included in the fiscal year 1999 FYDP. Our analysis of the Air Force's outsourcing estimates shows that the Air Force may have a difficult time achieving as many as 3,000 military and 8,600 civilian cuts included in the FYDP. Examples of the problems we identified are as follows:

- The Air Force found an additional 700 Jump Start positions that are included in the fiscal year 1999 FYDP but had already been included in the fiscal year 1998 FYDP, and therefore, cannot be used to meet QDR cuts.
- The fiscal year 1999 FYDP includes 1,200 administrative positions from the Jump Start study that Air Force leaders determined are not good candidates for outsourcing because they are split between many different units and locations, thereby making it difficult to identify more economical ways of accomplishing the mission.
- The Air Force may have overstated 5,700 civilian cuts in Jump Start because it assumed that all the military positions being eliminated would be contracted out. However, Air Force historical experience with public-private competitions under the A-76 process shows that 40 percent of these positions would remain in house with civilian employees.
- An Air Force outsourcing initiative that was separate from Jump Start but was included in the fiscal year 1999 FYDP overstated civilian cuts by about 1,200 positions. Specifically, the Air Force has targeted selected functions at 4 bases with about 3,000 positions—2,000 military and 1,000 civilians—to outsource. However, the Air Force did not base its personnel cuts on its historical experience but assumed that all of these positions would be replaced by contractor personnel. On the basis of the Air Force's past experience with cost comparison studies, we estimate that about 1,200 of these positions would remain in house with civilian employees.

Air Force officials agree that these errors and assumptions will make it more challenging to achieve outsourcing estimates included in the fiscal year 1999 FYDP. The officials stated that they are continuing to work closely with the major commands to refine their estimates.

⁴This estimate was based on an average civilian salary of \$50,000 per year and a 25-percent savings from outsourcing, which were used by OSD to estimate savings from personnel cuts.

Navy Plan to Achieve QDR Personnel Cuts

The QDR report recommends that the Navy reduce 18,000 active military, 4,100 reserves, and 8,400 civilian personnel. This reduction represents about a 4.5-percent cut of the active, reserve, and civilian personnel end strengths projected for fiscal year 2003 before the QDR. The majority of the active and reserve cuts result from force structure reductions. The Navy plans to achieve the majority of the active military cuts in fiscal year 1999. The civilian cuts depend primarily on the results of reengineering studies and projected decreases in workload. The QDR cuts do not represent all the potential personnel reductions in the Navy by fiscal year 2003 because the Navy's fiscal year 1999 budget projects savings of \$2.7 billion by fiscal year 2003 from competing 10,000 military and 75,500 civilian positions. The Navy's plan for achieving the QDR personnel cuts is summarized in table IV.1.

Table IV.1: Navy Plan to Achieve QDR Reductions (fiscal years 1999-2003)

Initiative	Active	Reserve	Civilian
Reduce force structure	11,000	2,200	50
Reduce intermediate maintenance	1,400	250	250
Outsource	1,300	50	400
Streamline headquarters	950	0	300
Reduce individuals account ^a	800	0	0
Reengineer Naval Facilities Engineering Command	0	0	3,600 ^b
Decrease in working capital fund workload	0	0	3,000
Other	2,550	1,600	800
Total	18,000	4,100	8,400

^aThis account includes transients, patients, prisoners, and students. The reduction is directly related to a smaller active military force.

^bThis amount includes about 800 positions to be cut through outsourcing.

Source: Navy.

Most Active Military Cuts Result From Reducing Force Structure

Approximately 11,000, or 61 percent, of the active cuts are associated with force structure cuts called for in the QDR, as shown in table IV.2.

Table IV.2: Active Navy Military Personnel Cuts from QDR Force Structure Reductions (fiscal years 1999-2003)

Force structure change	Positions
Deactivate 15 surface combatants	5,100
Deactivate 5 auxiliary ships and reduce the crew size on 7 other auxiliary ships	2,000
Deactivate 2 submarines and 1 tender	1,600
Deactivate 2 amphibious ships	600
Deactivate 2 helicopter squadrons	400
Reduce F-14 squadron size	400
Other	900
Total	11,000

Source: Department of the Navy.

The Navy plans to decrease the number of surface combatants from the current level of 128 to 116 by the end of fiscal year 2003. Navy officials said that newer ships entering the fleet will be more capable than those being deactivated. This increased capability will enable the Navy to provide forward presence and comply with other aspects of the national military strategy using fewer ships.

The Navy also plans to cut about 1,500 positions by deactivating five auxiliary oiler ships staffed by active personnel and replacing them with four ships that will be reactivated and staffed by civilian personnel assigned to the Military Sealift Command. According to Navy officials, the four ships that will be reactivated will be more economical primarily because they require smaller crews. The Military Sealift Command operates its ships with smaller crews because it hires skilled mariners, whereas Navy ships often rely heavily on recruits that must be trained to replace more skilled sailors. In addition, the Navy plans to cut about 500 positions by reducing the crew size on eight multiproduct auxiliary ships.¹

¹A multiproduct auxiliary ship can transfer munitions, provisions, freight, food, and other consumables to combatant ships while steaming along side at a distance from 80 to 300 feet.

We had previously reported that the Navy could transfer these ships to the Military Sealift Command and save about \$122.5 million.² The Navy determined that these ships should continue to be staffed with smaller military crews because the ships can maintain battle group speeds and operate within battle group formations.

The Navy plans to eliminate about 300 positions by decommissioning two attack submarines. The QDR states that this force reduction was based on changing post-Cold War requirements. In addition, the Navy plans to eliminate about 1,300 billets by decommissioning one submarine tender. According to a Navy official, this decision was made because submarine tenders are more expensive to operate than shore-based maintenance activities and the Navy is willing to service its submarine fleet with two tenders—one each in the Atlantic and Pacific Fleets.

The Navy plans to deactivate two amphibious ships and cut about 600 positions. According to Navy officials, this cut will leave the Navy with the 36 amphibious ships required to satisfy the Navy's long-term goal for 12 amphibious readiness groups. According to the Navy, this goal will allow it to meet wartime requirements and sustain peacetime operations.

The QDR assumes the Navy will cut about 400 positions by deactivating two helicopter supply squadrons and relying on private contractors to provide this service. However, the Navy is reconsidering whether this option is viable for the helicopter detachment based in Guam.

The QDR concluded that the Navy would maintain 10 active carrier-based airwings, but the Navy plans to reduce the size of F-14 squadrons from 14 to 10 aircraft, which will eliminate 40 aircraft and about 400 positions. A Navy official stated this action was taken because F-14s are reaching their fatigue life expectancy and are expensive to maintain. The Navy plans to fund these squadrons as if they had 12 aircraft each, which will allow the squadrons to satisfy mission requirements as well as maintain qualified pilots to transition to the F/A-18F. However, the Navy does plan to return the size of the fighter squadrons back to 14 aircraft when the F-14s are replaced by F/A-18E/Fs during fiscal years 2001-08.

The Navy also plans to cut about 6,500 active military positions in infrastructure-related activities. Some of the infrastructure cuts are based on the projected force structure cuts. For example, the Navy plans to cut

²Navy Ships: Turning Over Auxiliary Ship Operations to the Military Sealift Command Could Save Millions (GAO/NSIAD-97-185, Aug. 8, 1997).

about 1,400 intermediate maintenance positions because a smaller force will decrease workload. The Navy also plans to reduce Atlantic and Pacific Fleet headquarters by 20 percent, or about 950 positions—490 in the Atlantic Fleet and 460 in the Pacific Fleet. The Navy has identified the specific positions within each fleet to eliminate.

Finally, the Navy planned to eliminate about 1,300 positions by outsourcing selected functions in the Atlantic and Pacific Fleets. Fleet officials stated that they now plan to eliminate only about 660 military positions through outsourcing because the original plan included positions that are still needed due to sea-to-shore rotation requirements.

Naval Reserve Cuts Are Split Between Force Structure and Infrastructure Activities

The Navy plans to achieve about 2,200, or 52 percent, of its 4,100 reserve cuts by reducing force structure. It plans to achieve the remaining 1,900 cuts by reducing positions in various reserve support activities and eliminating funded positions it has been unable to fill. The Navy plans to eliminate nearly one-half of the positions in 1999 and the remainder between 2000 and 2003.

The largest reserve force structure reduction results from the Navy's decision to reduce the number of reserve P-3 squadrons from eight to seven and the number of aircraft per squadron from eight to six.³ The Navy's plan will eliminate 22 aircraft and about 840 positions. According to a Navy official, it is difficult to meet overseas deployment requirements with reserve personnel, so the Navy decided it needed more active personnel to satisfy this requirement.

The Navy also plans to eliminate about 240 positions by decommissioning four Naval Reserve frigates, two in fiscal year 2002 and two in fiscal year 2003. An additional 460 positions will be eliminated by deactivating the helicopter squadrons that support these frigates. However, a Navy official stated that the reserves may keep some of these frigates for an increased role in drug interdiction missions, which could reduce the number of positions originally scheduled to be cut. The Navy plans to revisit this decision during the fiscal year 2000 budget process.

The Navy plans to reduce the size of helicopter minesweeper squadrons from 12 to 8 aircraft, which will eliminate about 115 positions. The minesweeping squadrons comprise active and reserve personnel and

³These aircraft conduct antisurface, antisubmarine, surveillance, and mining operations for naval task groups at sea.

aircraft. Navy officials stated that the Navy decided to reduce the number of reserve aircraft because the reserve component could not adequately staff and maintain the squadrons to satisfy the 72-hour deployment requirement. The Navy also plans to deactivate one coastal minesweeper that supports the U. S. Southern Command, which will eliminate about 115 positions.

The final reserve force structure change involves a decision to replace an F-14 squadron of 14 aircraft with an F-18A squadron of 12 aircraft. Navy officials noted that the F-18As are less expensive to operate and maintain than the F-14 aircraft and that the normal reserve squadron size is 12 aircraft. This action will cut about 115 positions.

The Navy also plans to eliminate about 1,900 positions in various reserve support activities. Some of these cuts result from the force structure changes. For example, the Navy plans to cut about 250 maintenance positions because the reserves will have fewer aircraft to maintain. Another 185 positions will be eliminated based on the Navy's decision to deactivate a submarine tender from the active fleet. Additional positions will be eliminated because the Navy has not been able to fill them. For example, the Seabees have not been able to fill underwater construction positions with qualified personnel primarily because they do not have the money to pay for the 6-month training course that is required for sailors to qualify for the program. The Seabees have also not been able to recruit sailors coming off active duty who possess the required skills and training. In addition, although the battalions have a wartime role, the Navy decided that it was not feasible to fund battalion positions that were not being filled. Together with reductions from Construction Battalion headquarters, the Navy plans to cut about 600 battalion positions. Likewise, the Navy plans to cut about 250 medical and 190 intelligence positions because they remained unfilled.

Civilian Cuts Are Based on Reengineering Initiatives and Projected Decreases in Workload

The Navy assumed that it could cut about 3,600 positions from the Naval Facilities Engineering Command through various management efficiencies. The Navy plans to achieve one-third of the 2,500 Public Work Center cuts through productivity improvements, one-third through workload reductions, and one-third through outsourcing. The Navy plans to privatize utilities and streamline internal processes, such as acquisition reform, to achieve the productivity cuts. For the workload reductions, the Navy assumed that a 20-percent decline in the military construction program (including base closures) between fiscal year 1998 and 2003

would equate to a 20-percent reduction in personnel. Finally, the outsourcing cuts are based on Navy plans to study about 4,200 positions. The Navy has studies underway for approximately 1,100 of these positions. The Navy plans to study the remaining 3,100 positions in fiscal years 1999 through 2001; however, it has not yet identified the specific functions to be studied.

The Navy plans to eliminate about 1,100 positions by reengineering the Naval Facilities Engineering Command's field divisions. The Navy has started a study to determine how it can reduce the workforce by 30 percent through restructuring and streamlining operations and improve services to Navy customers. The study is scheduled to be completed in July 1998, and the reductions are scheduled to be implemented by fiscal year 2000.

The Navy also assumes that it will be able to cut about 3,000 positions funded through the working capital fund based on projected decreases in workload. However, the Navy was not able to provide any documentation to support these reductions.

Other Outsourcing Studies Are Planned

The Navy's fiscal year 1999 budget projects savings of \$2.5 billion by fiscal year 2003 from competing 80,500 positions—10,000 military and 70,500 civilian positions—over the next 5 years. However, the Navy did not program any potential military or civilian personnel cuts based on its outsourcing program. If the Navy studies all 80,500 positions, about 6,500 military and 35,000 civilian positions could be cut.⁴ Alternatively, if the Navy does not succeed in outsourcing these positions, it will have to reduce the amount of its planned savings in subsequent budgets. To date, the Navy has announced studies covering about 18,500 of these positions, but it does not have the remaining 62,000 positions identified by function or location.

⁴DOD policy is that all military positions being competed are considered non-essential and will be replaced by either a civilian employee or contractor. The Navy assumes that 6,500 of the active positions could be cut but that 3,500 will remain military to support sea-to-shore rotation. The civilian cuts are based on Navy experience that indicates 50 percent of the functions studied are won by contractors.

Marine Corps Plan to Achieve QDR Personnel Cuts

The QDR directed that the Marine Corps cut 1,800 active, 4,200 reserve, and 400 civilian personnel. These cuts represent a reduction of 1 percent for the active military, 10 percent for the reserves, and 2 percent for the civilian personnel end strengths projected for fiscal year 2003 before the QDR. The Marine Corps did not have a specific plan for making the cuts at the time the QDR was announced. However, during the summer and fall of 1997, the Marine Corps reviewed its activities to identify ways to reduce personnel to QDR-directed levels as well as shift more resources to its highest priority war-fighting units. The Marine Corps plans to eliminate 3,000 reserve positions, 1,200 less than directed in the QDR. Marine Corps officials stated the revised plan will achieve approximately the same level of savings implied in the QDR-proposed reduction because more positions for reservists on full-time active duty are being eliminated.

Most Active Cuts Involve a Reorganization of Security Forces

The Marine Corps plans to reduce the size of the Marine Security Force Battalion and eliminate headquarters administrative and support positions to achieve its active military cuts. The Marine Security Force Battalion has historically provided security for some Navy installations and some deployed Navy ships. These requirements have been reduced because the number of nuclear weapons storage and transfer sites are decreasing, nuclear weapons are no longer deployed on ships, and most Navy bases are open to the public. The Navy has agreed that the Marine Corps could reduce the size of the security battalion, eliminating about 1,200, or 40 percent, of its 3,000 positions. About 70 percent of these positions were associated with missions that were no longer valid. The remaining 30 percent involved proposals to meet the same level of support through more efficient use of personnel. The Marine Corps plans to satisfy the Navy's security needs by increasing the number of special anti-terrorist platoons from 6 to 11, providing anti-terrorist training to the Navy personnel on Navy bases and stations as needed, and continuing to provide security guards for selected Navy activities. The Marine Corps also plans to eliminate about 600 administrative positions by improving efficiency and using new technology, although the positions have not been specifically identified.

The Marine Corps developed its plan to meet active duty cuts outlined in the QDR as a part of a broader effort to shift resources to its highest priority operational requirements. In addition to developing a plan to achieve its QDR cuts, the Marine Corps also identified about 4,000 positions that could be eliminated and transferred to operational units to achieve a 90-percent staffing level in these units. For example, the Marine Corps plans to

eliminate or reduce administrative and support positions, such as audio-visual and disbursing. The Marine Corps also plans to reduce or eliminate some weapon systems. For example, the Marine Corps plans to reduce about 850 positions related to cuts in certain infantry and missile systems, including some anti-tank missile positions and all 383 HAWK missile firing positions. A senior Marine Corps official said that, although these systems are valuable, they are not the most critical and that the resources can be better used in other ways. For example, despite the capability of the HAWK system, its lift requirements make movement into theater difficult. The Marine Corps plans to rely on Navy aircraft and Army Patriot missiles to replace HAWK capabilities until a future anti-ballistic missile defense is deployed.

Reserve Cuts Are Fewer Than Directed by the QDR

The QDR directed that the Marine Corps reduce its reserve component by 4,200. According to Marine Corps officials, the Commandant, after an extensive review of the reserve force structure, decided to cut only 3,000 positions. Marine Corps officials noted that, although fewer positions are being cut than the QDR directed, approximately the same level of savings will be achieved because the Marine Corps original estimates were based on average costs for drilling reservists who are generally paid for weekend duty, whereas the Marine Corps' revised plan cuts more full-time reservists who have higher salaries that are comparable to active duty personnel.¹ The Commandant chartered a reserve force structure review group to make recommendations on restructuring the Marine Corps Reserve, within QDR guidelines, to complement the active component in meeting the requirements of the war-fighting commanders in chief. The group focused on identifying forces not critical to meeting war-fighting requirements and units at sites that are underutilized, not cost-effective, or in poor condition and eliminating redundant or unnecessary headquarters overhead. An additional consideration was to minimize the impact on individual personnel whose positions will be eliminated. This consideration meant closing units in areas where there are other units within the geographical area so that personnel displaced by closings can fill positions in other local units.

On the basis of the work of the force structure review group, the Commandant decided to eliminate 3,000 reserve positions: 1,434 positions from drilling units, 695 individual mobilization augmentees, and 553

¹According to Marine Corps officials, OSD instructed the Marine Corps to calculate savings by equating four reserve positions to one active duty position. However, full-time reservists, as opposed to reservists who drill on weekends, are paid the same as active duty personnel. Thus, eliminating one full-time position would save as much as eliminating four drilling unit positions.

positions for reservists on active duty. The Marine Corps also plans to reduce the number of new recruits by 318 positions. Full-time reserve personnel represent the highest cost category. By eliminating more of these positions than it originally estimated, the Marine Corps expects to achieve approximately the same level of savings and lose fewer personnel than directed in the QDR.

To achieve the reductions in drilling units, the Marine Corps plans to deactivate units and realign personnel and organizations at various sites throughout the United States. The Marine Corps plans to deactivate one theater missile defense (HAWK) unit and reorganize another, which will eliminate about 475 positions. This action corresponds to the Marine Corps' decision to eliminate HAWK units in the active force. The Marine Corps also plans to deactivate 10 other units, which will eliminate about 740 positions. Some of these units had difficulty in recruiting and sustaining their occupational specialties and were already understaffed, whereas others had no wartime mission. Finally, other cuts are based on plans to restructure some units so that the Marine Corps can accomplish its missions more efficiently without undermining operational effectiveness. For example, the Marine Corps plans to cut about 230 positions by deactivating one Marine Wing Support Squadron and transferring some of its functions to other squadrons.

The Marine Corps plans to reduce 695 individual mobilization augmentee positions in fiscal years 1998 and 1999 through attrition. The individual mobilization augmentees currently serve in many capacities, including headquarters and support activities. The Marine Corps allocated the cuts to each functional area, such as communications and information. However, it is currently conducting a review to identify the specific positions within each area to eliminate.

Full-time reserve reductions will be taken by units spread throughout the Marine Corps Reserve, including small cuts in some operating units. The largest number of reductions—175—will come from the reserve air wing, which had 1,080 full-time reserve positions. The Marine Corps plans to achieve most of these reductions by reducing air wing headquarters staff (77 positions) and eliminating HAWK units (34 positions). Headquarters and support units will be cut by higher percentages than other units. For example, Marine Corps headquarters will eliminate 49, or 37 percent, of its 133 active reserve positions, and the Marine Corps Combat Development Command will be reduced by 15, or 75 percent, of its 20 active reserve positions. In addition, the Marine Corps plans to consolidate reserve

administrative activities in one location, which will eliminate about 155 active reserve positions.

Civilian Cuts Have Not Been Identified

To achieve the civilian cuts, the Marine Corps plans to eliminate 63 positions, or 10 percent, of the civilian staff at its headquarters and other activities in the Washington, D.C., area. The remaining 237 positions to be eliminated will be prorated among other installations worldwide. The Marine Corps has not identified the actual positions to be cut. Over the next 5 years, the Marine Corps will provide funding for fewer positions, and the local commanders will have to decide which positions to cut. Because of the long lead time, Marine Corps officials believe the cuts can be achieved through normal attrition and targeted incentives and without reductions in force.

Comments From the Department of Defense



PERSONNEL AND
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MAR 30 1998



Mr. Richard Davis
Director, National Security Analysis
National Security and International Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Davis:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "QUADRENNIAL DEFENSE REVIEW (QDR): All Personnel Cuts and Associated Savings May Not Be Achieved," dated February 27, 1998 (GAO Code 701116/OSD Case 1552).

The Department appreciates the enormous amount of work that went into this study. Please accept our compliments on the way your personnel worked with members of the Department in compiling and preparing this report within restrictive time constraints. To enhance your report, the Department wishes to clarify several key issues to avoid over-emphasizing negative aspects of the QDR personnel reductions.

Since May 1997, the apparent cut-off date of information included in the GAO report, the Department has taken many planning, programming, and budgeting actions to produce dollar savings that could be used to increase modernization funding. These actions are in addition to the personnel reductions discussed in the GAO report and include various analyses, numerous evaluations of alternatives, and selective programming decisions. In many cases, the Department components identified further decisions or alternatives to implement the QDR as we progressed through the planning, programming, and budgeting process.

The QDR process began by developing an overarching defense strategy followed by assessments of the necessary force structure, readiness, and modernization to implement the strategy. The department also considered adequate modernization funding necessary to meet future challenges combined with a conscious decision to reduce infrastructure and support activities as much as possible. The resulting balanced program recommended by the QDR is based on modest reductions and restructuring of our military force structure to meet present threats. The emphasis on dollar savings in the GAO report ignores the Department's strategy assessment.

The Department wishes to emphasize that the QDR is one part of an ongoing process. Failing to provide that context can mislead the reader. During the QDR, the Department identified initiatives that could safely reduce infrastructure costs and personnel. These initiatives



Appendix VI
Comments From the Department of Defense

included reengineering our infrastructure to achieve better business practices; consolidating many logistics activities; reducing layers of management oversight at headquarters and operational commands; and competing and privatizing infrastructure functions that are closely related to commercial enterprises. However, even as he released the QDR report, the Secretary acknowledged that more could be done in these areas. Therefore, he established the Defense Reform Initiative (DRI), which provided a second set of initiatives to reduce infrastructure. Through the steps outlined in the QDR and DRI, the Department will achieve savings that will help protect the readiness of our force structure and allow necessary growth in modernization funding.

The QDR and the DRI provided a blueprint to revolutionize business affairs and promote a more efficient infrastructure. As with any blueprint, many of the implementation details were to be fully developed later through the programming and budgeting process. In fact, many of the implementation details were developed in preparing this year's budget and much work remains to be done through future budget cycles.

Finally, QDR decisions to downsize the Army's active, reserve, and civilian components - for which the GAO report was critical - were based on a careful analysis of the risks, the potential impact on readiness, and the ability to execute. Army leadership reviewed the costing methodology, impacts, and decisions carefully and determined that the level of risk was prudent. The QDR gave the Army the opportunity to begin the first steps in restructuring to meet the demands of the future while maintaining forces capable of meeting current mission requirements with trained and ready forces.

In conclusion, the Department appreciates the opportunity to comment on the GAO draft report and to work as a team as this review was conducted. The intent of these comments is to more adequately state and represent DoD's position on QDR implementation, particularly the many actions accomplished since May. Additional technical corrections were provided separately to the GAO staff.

Sincerely,



Jeanne B. Fites
Deputy Under Secretary of Defense
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